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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission
DOCKETED

FEB 25 2015

DOCKETED BY

IN THE MATTER OF THE APPLICATION
OF EPCOR WATER ARIZONA, INC. FOR A
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES FOR
UTILITY SERVICE BY ITS MOHAVE
WATER DISTRICT, PARADISE VALLEY
WATER DISTRICT, SUN CITY WATER
DISTRICT, TUBAC WATER DISTRICT,
AND MOHAVE WASTEWATER DISTRICT

DOCKET NO. WS-01303A-14-0010

NOTICE OF ERRATA

ORIGINAL

An incorrect Schedule 9 was attached to the Ms. Ahern's Rebuttal Testimony filed on February 9, 2015. The version of Schedule 9 attached to this filing should replace the Schedule 9 originally docketed.

RESPECTFULLY SUBMITTED this 25th day of February, 2015.

LEWIS ROCA ROTHGERBER, LLP

Thomas Campbell
Michael T. Hallam
201 E. Washington Street
Phoenix, AZ 85004
(602) 262-5340
Attorneys for EPCOR Water Arizona, Inc.

1 ORIGINAL AND thirteen (13) copies
2 of the foregoing hand-delivered this
25th day of February, 2015, to:

3 The Arizona Corporation Commission
4 Utilities Division – Docket Control
1200 W. Washington Street
Phoenix, Arizona 85007

5 Copy of the foregoing hand-delivered
6 this 25th day of February, 2015, to:

7 Steve Olea
8 Utilities Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

10 Dwight D. Nodes, Law Judge
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

12 Janice Alward, Chief Counsel,
13 Legal Department
Arizona Corporation Commission
14 1200 W. Washington Street
Phoenix, Arizona 85007

15 Copy of the foregoing mailed
16 this 25th day of February, 2015, to:

17 Daniel W. Pozefsky
18 RUCO
19 1110 W. Washington St., Suite 220
Phoenix, AZ 85007

20 Rich Bohman, President
21 Santa Cruz Valley Citizens Council
22 P.O. Box 1501
Tubac, AZ 85646

23 Greg Patterson
24 WUAA
25 916 W. Adams, Suite 3
26 Phoenix, AZ 85007

Delman E. Eastes
2042 E. Sandtrap Lane
Fort Mohave, AZ 86426

Marshall Magruder
P.O. Box 1267
Tubac, AZ 85646-1267

William F. Bennett
Legal Counsel
Paradise Valley Country Club
7101 N. Tatum Blvd
Paradise Valley, AZ 85253

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Robert J. Metli
Munger Chadwick, P.L.C.
2398 E. Camelback Rd, Suite 240
Phoenix, AZ 85016

Andrew M. Miller
Town Attorney
6401 E. Lincoln Drive
Paradise Valley, AZ 85253

Albert E. Gervenack
14751 W. Buttonwood Drive
Sun City West, AZ 85375



Jim Stark, President
Greg Eisert
Sun City Home Owners Association
10401 W. Coggins Drive
Sun City, AZ 85351

EPCOR Water Arizona Inc.
Brief Summary of Common Equity Cost Rate

<u>No.</u>	<u>Principal Methods</u>	<u>Proxy Group of Nine Water Companies</u>
1.	Discounted Cash Flow Model (DCF) (1)	8.52 %
2.	Risk Premium Model (RPM) (2)	10.97
3.	Capital Asset Pricing Model (CAPM) (3)	9.72
5.	Indicated Common Equity Cost Rate before Adjustment for Business Risks	9.72 %
6.	Credit Risk Adjustment (4)	0.24
7.	Business Risk Adjustment (5)	<u>0.30</u>
8.	Indicated Common Equity Cost Rate	<u><u>10.26 %</u></u>
9.	Recommended Common Equity Cost Rate	<u><u>10.25%</u></u>

- Notes:
- (1) From page 2 of this Schedule.
 - (2) From page 3 of this Schedule.
 - (3) From page 14 of this Schedule.
 - (4) Credit risk adjustment to reflect the EPCOR Water Arizona Inc.'s greater credit risk as discussed in Ms. Ahern's direct testimony.
 - (5) Business risk adjustment to reflect EPCOR Water Arizona Inc.'s greater business risk due to its small size relative to the proxy group as detailed in Ms. Ahern's direct testimony.

EPCOR Water Arizona Inc.
Indicated Common Equity Cost Rate Using the Discounted Cash Flow Model for
the Proxy Group of Nine Water Companies

	1	2	3	4	5	6	7	8
		Value Line	Reuters	Zack's	Yahoo!	Average		Indicated
	Average	Projected	Mean	Five Year	Finance	Projected	Adjusted	Common
Proxy Group of Nine Water Companies	Dividend	Five Year	Consensus	Projected	Projected	Five Year	Dividend	Equity
	Yield (1)	Growth in	Five Year	Growth	Five Year	Growth in	Yield (4)	Cost Rate
		EPS (2)	Growth Rate	Rate in	Growth in	EPS (3)		(5)
			in EPS	EPS	EPS			
American States Water Co.	2.42 %	6.50 %	2.00 %	2.00 %	2.00 %	3.13 %	2.46 %	5.59 %
American Water Works Co., Inc.	2.38	7.50	8.20	7.90	8.20	7.95	2.47	10.42
Aqua America, Inc.	2.63	8.50	4.00	5.00	4.00	5.38	2.70	8.08
Artesian Resources Corp.	4.03	NA	NA	NA	4.00	4.00	4.11	8.11
California Water Service Group	2.60	7.50	6.00	6.00	6.00	6.38	2.68	9.06
Connecticut Water Service, Inc.	2.94	7.00	5.00	5.00	5.00	5.50	3.02	8.52
Middlesex Water Company	3.48	5.00	NA	NA	2.70	3.85	3.55	7.40
SJW Corporation	2.51	7.00	NA	NA	14.00	10.50	2.64	13.14
York Water Company	2.80	7.00	NA	NA	4.90	5.95	2.88	8.83
Average								<u>8.80 %</u>
Median								<u>8.52 %</u>

NA= Not Available
NMF = Not Meaningful Figure

Notes:

- (1) Indicated dividend at 12/31/2014 divided by the average closing price of the last 60 trading days ending 12/31/2014 for each company.
- (2) From pages 16 through 24 of this Schedule.
- (3) Average of columns 2 through 5 excluding negative growth rates.
- (4) This reflects a growth rate component equal to one-half the conclusion of growth rate (from column 6) x column 1 to reflect the periodic payment of dividends (Gordon Model) as opposed to the continuous payment. Thus, for American States Water Co., $2.42\% \times (1 + (1/2 \times 3.13\%)) = 2.46\%$.
- (5) Column 6 + column 7.

Source of Information:

Value Line Investment Survey
www.reuters.com Downloaded on 01/12/2015
www.zacks.com Downloaded on 01/12/2015
www.yahoo.com Downloaded on 01/12/2015

EPCOR Water Arizona Inc.
Summary of Risk Premium Models for the
Proxy Group of Nine Water Companies

	<u>Proxy Group of Nine Water Companies</u>
Predictive Risk Premium Model TM (PRPM TM) (1)	11.35 %
Risk Premium Using an Adjusted Total Market Approach (2)	<u>9.82 %</u>
Average	<u><u>10.97 %</u></u>

Notes:

- (1) From page 4 of this Schedule.
- (2) From page 5 of this Schedule.

EPCOR Water, Arizona Inc.
Derivation of Common Equity Cost Rate
Using the Predictive Risk Premium Model™ (PRPM™)
Proxy Group of Nine Water Companies(1)

	American States Water Co.	American Water Works Co., Inc.	Aqua America, Inc.	Artesian Resources Corp.	California Water Service Group	Connecticut Water Service, Inc.	Middlesex Water Company	SJW Corporation	York Water Company
GARCH Coefficient (1)	1.524529837	4.738888742	2.229938099	2.125935424	1.862740067	1.786590377	2.002613467	1.38488181	2.046276487
Average Predicted Variance (2)	0.40%	0.45%	0.47%	0.30%	0.32%	0.29%	0.27%	0.42%	0.45%
PRPM™ Derived Average Risk Premium (2)	7.51%	28.47%	13.33%	7.80%	7.31%	6.30%	6.71%	7.20%	11.73%
Risk-Free Rate (3)	3.94%	3.94%	3.94%	3.94%	3.94%	3.94%	3.94%	3.94%	3.94%
Indicated Cost of Common Equity	11.45%	NA	17.27%	11.74%	11.25%	10.24%	10.65%	11.14%	15.67%
								Average	12.43%
								Median	11.35%

Notes:

- (1) PRPM™ run from first available trading month through December 2014.
- (2) Based upon data from CRSP® Data © 2012, Center For Research in Security Prices (CRSP®), The University of Chicago Booth School of Business.
- (3) From note 3 on page 15 of this Schedule.

EPCOR Water Arizona Inc.
Indicated Common Equity Cost Rate
Through Use of a Risk Premium Model
Using an Adjusted Total Market Approach

<u>Line No.</u>		<u>Proxy Group of Nine Water Companies</u>
1.	Prospective Yield on Aaa Rated Corporate Bonds (1)	4.85 %
2.	Adjustment to Reflect Yield Spread Between Aaa Rated Corporate Bonds and A Rated Public Utility Bonds	<u>0.15</u> (2)
3.	Adjusted Prospective Yield on A Rated Public Utility Bonds	5.00 %
4.	Adjustment to Reflect Bond Rating Difference of Proxy Group	<u>(0.01)</u> (3)
5.	Adjusted Prospective Bond Yield	4.99 %
6.	Equity Risk Premium (5)	<u>4.83</u>
7.	Risk Premium Derived Common Equity Cost Rate	<u><u>9.82</u></u> %

- Notes:
- (1) Consensus forecast of Moody's Aaa Rated Corporate bonds from Blue Chip Financial Forecasts (see pages 11 - 12 of this Schedule).
 - (2) The average yield spread of A rated public utility bonds over Aaa rated corporate bonds of 0.15% from page 8 of this Schedule.
 - (3) Adjustment to reflect the A1/A2 Moody's bond rating of the proxy group of nine water companies as shown on page 6 of this Schedule. The 1 basis point adjustment is derived by taking 1/6 of the spread between Aa2 and A2 Public Utility Bonds ($1/6 * 0.06\% = 0.01\%$).
 - (4) From page 6 of this Schedule.

EPCOR Water Arizona Inc.
Comparison of Bond Ratings, Business Risk and Financial Risk Profiles for the
Proxy Group of Nine Water Companies

Proxy Group of Nine Water Companies	Moody's		Standard & Poor's	
	Bond Rating	Numerical Weighting(1)	Bond Rating	Numerical Weighting(1)
	January 2015		January 2015	
American States Water Co. (2)	A2	6.0	A+	5.0
American Water Works Co., Inc. (3)	A1	5.0	A+	5.0
Aqua America, Inc. (4)	NR	--	AA-	4.0
Artesian Resources Corp.	NR	--	NR	--
California Water Service Group (5)	NR	--	AA-	4.0
Connecticut Water Service, Inc. (6)	NR	--	A/A-	6.5
Middlesex Water Company	NR	--	A	6.0
SJW Corporation (7)	NR	--	A	6.0
York Water Company	NR	--	A-	7.0
Average	A1/A2	5.5	A+	5.4

Notes:

- (1) From page 7 of this Schedule.
- (2) Ratings are those of Golden State Water Company.
- (3) Ratings are those of Pennsylvania American Water.
- (4) Ratings are those of Aqua Pennsylvania, Inc.
- (5) Ratings are those of California Water Service Co.
- (6) Ratings are those of Connecticut Water Company.
- (7) Ratings are those of San Jose Water Co.

Source Information: Moody's Investors Service
Standard & Poor's Global Utilities Rating Service

Numerical Assignment for
Moody's and Standard & Poor's Bond Ratings

<u>Moody's Bond Rating</u>	<u>Numerical Bond Weighting</u>	<u>Standard & Poor's Bond Rating</u>
Aaa	1	AAA
Aa1	2	AA+
Aa2	3	AA
Aa3	4	AA-
A1	5	A+
A2	6	A
A3	7	A-
Baa1	8	BBB+
Baa2	9	BBB
Baa3	10	BBB-
Ba1	11	BB+
Ba2	12	BB
Ba3	13	BB-
B	14	B+
B2	15	B
B3	16	B-

Moody's
Comparison of Interest Rate Trends
for the Three Months Ending December 2014 (1)

Months	Corporate Bonds Aaa Rated	Public Utility Bonds		Spread - Corporate v. Public Utility Bonds		Spread - Public Utility Bonds	
		Aa Rated	A Rated	Aa (Pub. Util.) over Aaa (Corp.)	A (Pub. Util.) over Aaa (Corp.)	A over Aa	Baa over A
October-14	3.92 %	3.98 %	4.06 %				
November-14	3.92	4.03	4.09				
December-14	3.79	3.90	3.95				
Average of Last 3 Months	3.88 %	3.97 %	4.03 %	0.09 %	0.15 %	0.06 %	0.68 %

Notes: (1) All yields are distributed yields.

Source of Information: Mergent Bond Record, January 2015, Vol. 82, No. 1.

EPCOR Water Arizona Inc.
Judgment of Equity Risk Premium for
the Proxy Group of Nine Water Companies

<u>Line No.</u>		<u>Proxy Group of Nine Water Companies</u>
1.	Calculated equity risk premium based on the total market using the beta approach (1)	4.80 %
2.	Mean equity risk premium based on a study using the holding period returns of public utilities with A rated bonds (2)	<u>4.86</u>
3.	Average equity risk premium	<u><u>4.83 %</u></u>

Notes: (1) From page 10 of this Schedule.
(2) From page 13 of this Schedule.

EPCOR Water Arizona Inc.
Derivation of Equity Risk Premium Based on the Total Market Approach
Using the Beta for
the Proxy Group of Nine Water Companies

<u>Line No.</u>	<u>Proxy Group of Nine Water Companies</u>
<u>Based on SBBi Valuation Yearbook Data:</u>	
1. Ibbotson Equity Risk Premium (1)	5.85 %
2. Ibbotson Equity Risk Premium based on PRPM TM (2)	9.31
<u>Based on Value Line Summary and Index:</u>	
3. Equity Risk Premium Based on <u>Value Line Summary and Index</u> (3)	<u>5.39</u>
4. Conclusion of Equity Risk Premium (4)	6.85 %
5. Adjusted Value Line Beta (5)	<u>0.70</u>
6. Beta Adjusted Equity Risk Premium	<u><u>4.80 %</u></u>

- Notes:
- (1) Based on the arithmetic mean historical monthly returns on large company common stocks from Ibbotson® SBBi® 2014 Classic Yearbook - Market Results for Stocks, Bonds, Bills, and Inflation minus the arithmetic mean monthly yield of Moody's Aaa and Aa corporate bonds from 1926 - 2013. (12.05% - 6.20% = 5.85%).
 - (2) The Predictive Risk Premium Model (PRPMTM) is discussed in Ms. Ahern's accompanying direct testimony. The Ibbotson equity risk premium based on the PRPMTM is derived by applying the PRPMTM to the monthly risk premiums between Ibbotson large company common stock monthly returns minus the average Aaa and Aa corporate monthly bond yields, from January 1928 through November 2014.
 - (3) The equity risk premium based on the Value Line Summary and Index is derived from taking the projected 3-5 year total annual market return of 10.24% (described fully in note 1 of page 15 of this Schedule) and subtracting the average consensus forecast of Aaa corporate bonds of 4.85% (Shown on page 5 of this Schedule). (10.24% - 4.85% = 5.39%).
 - (4) Average of Lines 1, 2, & 3.
 - (5) Median beta from page 14 of this Schedule.

Sources of Information:

Ibbotson® SBBi® 2014 Classic Yearbook - Market Results for Stocks, Bonds, Bills, and Inflation, Morningstar, Inc., 2014 Chicago, IL.
Industrial Manual and Mergent Bond Record Monthly Update.
Value Line Summary and Index
Blue Chip Financial Forecasts, January 1, 2015 and December 1, 2014

2 ■ BLUE CHIP FINANCIAL FORECASTS ■ JANUARY 1, 2015

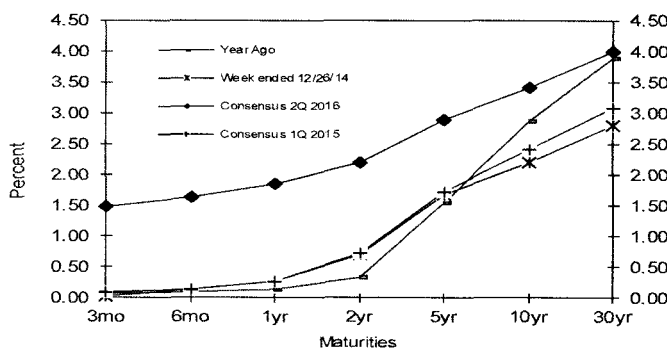
Consensus Forecasts Of U.S. Interest Rates And Key Assumptions¹

Interest Rates	History								Consensus Forecasts-Quarterly Avg.					
	Average For Week Ending-----				Average For Month----			Latest Q*	1Q	2Q	3Q	4Q	1Q	2Q
	Dec. 26	Dec. 19	Dec. 12	Dec. 5	Nov.	Oct.	Sep.		2015	2015	2015	2015	2016	2016
Federal Funds Rate	0.13	0.12	0.12	0.10	0.09	0.09	0.09	0.10	0.1	0.2	0.5	0.8	1.2	1.5
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.3	3.3	3.5	3.9	4.2	4.6
LIBOR, 3-mo.	0.24	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.3	0.4	0.7	1.0	1.4	1.8
Commercial Paper, 1-mo.	0.12	0.11	0.11	0.10	0.07	0.06	0.06	0.08	0.1	0.2	0.5	0.9	1.3	1.6
Treasury bill, 3-mo.	0.04	0.04	0.03	0.02	0.02	0.02	0.02	0.03	0.1	0.2	0.5	0.8	1.2	1.5
Treasury bill, 6-mo.	0.13	0.11	0.10	0.08	0.07	0.05	0.04	0.08	0.1	0.3	0.6	0.9	1.3	1.6
Treasury bill, 1 yr.	0.26	0.23	0.20	0.15	0.13	0.10	0.11	0.15	0.3	0.5	0.8	1.2	1.5	1.9
Treasury note, 2 yr.	0.70	0.63	0.61	0.56	0.53	0.45	0.57	0.54	0.7	1.0	1.3	1.6	1.9	2.2
Treasury note, 5 yr.	1.69	1.61	1.61	1.60	1.62	1.55	1.77	1.60	1.7	1.9	2.2	2.4	2.7	2.9
Treasury note, 10 yr.	2.21	2.14	2.19	2.27	2.33	2.30	2.53	2.27	2.4	2.6	2.8	3.0	3.2	3.4
Treasury note, 30 yr.	2.80	2.75	2.84	2.97	3.04	3.04	3.26	2.96	3.1	3.3	3.5	3.7	3.9	4.0
Corporate Aaa bond	3.78	3.74	3.75	3.90	3.92	3.92	4.11	3.87	4.0	4.2	4.3	4.6	4.8	5.0
Corporate Baa bond	4.75	4.72	4.72	4.79	4.79	4.69	4.80	4.74	4.9	5.1	5.3	5.5	5.7	5.8
State & Local bonds	na	3.65	3.65	3.83	3.96	3.96	4.13	3.86	3.9	4.1	4.3	4.5	4.6	4.8
Home mortgage rate	na	3.80	3.93	3.89	4.00	4.04	4.16	3.97	4.1	4.3	4.5	4.7	4.9	5.1

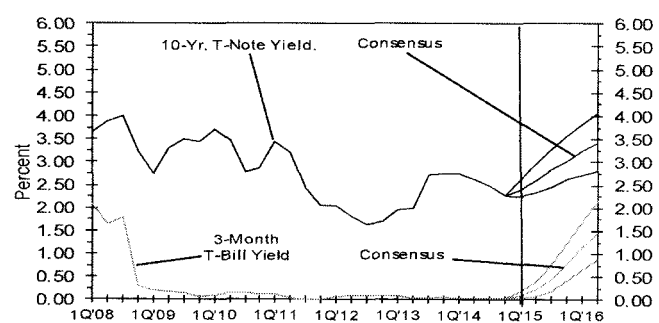
Key Assumptions	History								Consensus Forecasts-Quarterly					
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q*	1Q	2Q	3Q	4Q	1Q	2Q
	2013	2013	2013	2013	2014	2014	2014	2014	2015	2015	2015	2015	2016	2016
Major Currency Index	74.7	76.4	76.7	76.0	77.1	76.6	77.8	83.9	84.0	84.7	85.3	85.5	85.7	85.5
Real GDP	2.7	1.8	4.5	3.5	-2.1	4.6	5.0	2.7	2.9	2.9	3.0	3.0	2.9	2.9
GDP Price Index	1.3	1.2	1.7	1.5	1.3	2.1	1.4	1.0	1.3	1.7	1.9	2.0	2.1	2.0
Consumer Price Index	1.2	0.4	2.2	1.1	1.9	3.0	1.1	-0.9	0.4	1.9	2.1	2.3	2.2	2.2

Forecasts for interest rates and the Federal Reserve's Major Currency Index represent averages for the quarter. Forecasts for Real GDP, GDP Price Index and Consumer Price Index are seasonally-adjusted annual rates of change (saar). Individual panel members' forecasts are on pages 4 through 9. Historical data for interest rates except LIBOR is from Federal Reserve Release (FRSR) H.15. LIBOR quotes available from *The Wall Street Journal*. Interest rate definitions are same as those in FRSR H.15. Treasury yields are reported on a constant maturity basis. Historical data for Fed's Major Currency Index is from FRSR H.10 and G.5. Historical data for Real GDP and GDP Chained Price Index are from the Bureau of Economic Analysis (BEA). Consumer Price Index (CPI) history is from the Department of Labor's Bureau of Labor Statistics (BLS). *Data for 4Q 2014 Major Currency Index is based on data through December 23. Figures for 4Q 2014 Real GDP, GDP Chained Price Index and Consumer Price Index are consensus forecasts based on a special question asked of the panelists' this month.

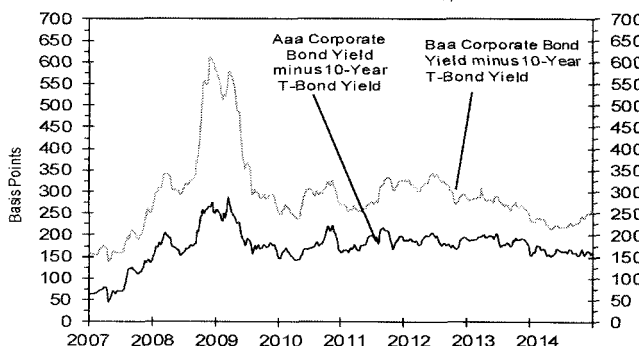
U.S. Treasury Yield Curve
Week ended December 26, 2014 and Year Ago vs.
1Q 2014 and 2Q 2016 Consensus Forecasts



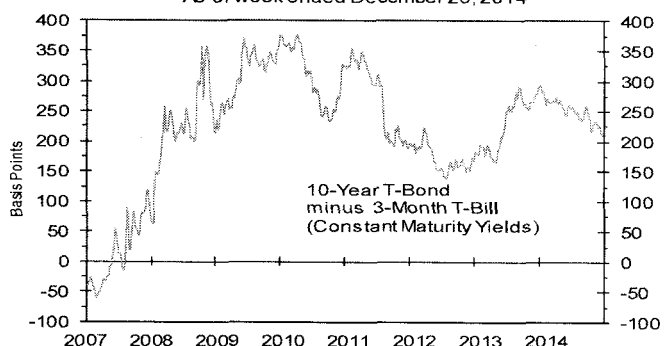
U.S. 3-Mo. T-Bills & 10-Yr. T-Note Yield
(Quarterly Average) Forecast



Corporate Bond Spreads
As of week ended December 26, 2014



U.S. Treasury Yield Curve
As of week ended December 26, 2014



Long-Range Estimates:

The table below contains results of our semi-annual long-range CONSENSUS survey. There are also Top 10 and bottom 10 averages for each variable. Shown are estimates for the years 2016 through 2020 and averages for the five-year periods 2016-2020 and 2020-2025. Apply these projections cautiously. Few economic, demographic and political forces can be evaluated accurately over such long time spans.

Interest Rates		Average For The Year					Five-Year Averages	
		2016	2017	2018	2019	2020	2016-2020	2021-2025
1. Federal Funds Rate	CONSENSUS	1.8	2.9	3.6	3.7	3.7	3.1	3.6
	Top 10 Average	2.4	3.7	4.2	4.2	4.2	3.7	4.1
	Bottom 10 Average	1.2	2.3	2.9	3.0	3.0	2.5	2.9
2. Prime Rate	CONSENSUS	4.7	5.8	6.5	6.6	6.6	6.0	6.5
	Top 10 Average	5.4	6.6	7.1	7.2	7.2	6.7	7.1
	Bottom 10 Average	4.2	5.2	5.8	5.9	5.8	5.4	5.6
3. LIBOR, 3-Mo.	CONSENSUS	2.1	3.2	3.7	3.9	3.9	3.3	3.8
	Top 10 Average	2.7	3.9	4.3	4.4	4.4	3.9	4.3
	Bottom 10 Average	1.5	2.5	3.1	3.2	3.3	2.7	3.3
4. Commercial Paper, 1-Mo.	CONSENSUS	1.9	3.0	3.5	3.7	3.7	3.1	3.7
	Top 10 Average	2.4	3.5	4.0	4.2	4.2	3.6	4.2
	Bottom 10 Average	1.5	2.5	3.0	3.1	3.2	2.7	3.2
5. Treasury Bill Yield, 3-Mo.	CONSENSUS	1.8	2.9	3.4	3.6	3.6	3.0	3.5
	Top 10 Average	2.4	3.6	4.0	4.2	4.1	3.7	4.1
	Bottom 10 Average	1.3	2.2	2.9	2.9	2.9	2.4	2.7
6. Treasury Bill Yield, 6-Mo.	CONSENSUS	2.0	3.0	3.6	3.7	3.7	3.2	3.6
	Top 10 Average	2.5	3.8	4.2	4.4	4.3	3.8	4.2
	Bottom 10 Average	1.5	2.4	3.0	3.1	3.1	2.6	2.8
7. Treasury Bill Yield, 1-Yr.	CONSENSUS	2.1	3.2	3.7	3.8	3.8	3.3	3.7
	Top 10 Average	2.8	3.9	4.4	4.5	4.4	4.0	4.3
	Bottom 10 Average	1.6	2.5	3.1	3.1	3.2	2.7	2.9
8. Treasury Note Yield, 2-Yr.	CONSENSUS	2.5	3.4	3.9	4.0	4.0	3.6	4.0
	Top 10 Average	3.3	4.1	4.5	4.7	4.6	4.2	4.5
	Bottom 10 Average	1.9	2.8	3.3	3.3	3.3	2.9	3.2
10. Treasury Note Yield, 5-Yr.	CONSENSUS	3.1	3.8	4.2	4.3	4.3	4.0	4.3
	Top 10 Average	3.8	4.5	4.9	5.1	5.1	4.7	4.9
	Bottom 10 Average	2.6	3.2	3.6	3.5	3.6	3.3	3.6
11. Treasury Note Yield, 10-Yr.	CONSENSUS	3.7	4.3	4.6	4.7	4.7	4.4	4.6
	Top 10 Average	4.4	5.0	5.4	5.6	5.6	5.2	5.4
	Bottom 10 Average	3.2	3.5	3.8	3.8	3.9	3.7	3.9
12. Treasury Bond Yield, 30-Yr.	CONSENSUS	4.3	4.8	5.0	5.1	5.2	4.9	5.1
	Top 10 Average	5.0	5.6	5.9	6.2	6.2	5.8	6.0
	Bottom 10 Average	3.7	4.0	4.2	4.2	4.3	4.1	4.3
13. Corporate Aaa Bond Yield	CONSENSUS	5.1	5.6	6.0	6.1	6.1	5.8	6.1
	Top 10 Average	5.8	6.4	6.8	7.0	7.0	6.6	6.8
	Bottom 10 Average	4.5	4.8	5.1	5.1	5.2	5.0	5.4
13. Corporate Baa Bond Yield	CONSENSUS	6.0	6.5	6.8	6.9	7.0	6.6	7.0
	Top 10 Average	6.7	7.3	7.7	7.9	7.9	7.5	7.7
	Bottom 10 Average	5.4	5.6	5.9	5.9	6.0	5.8	6.2
14. State & Local Bonds Yield	CONSENSUS	4.9	5.2	5.4	5.4	5.4	5.2	5.3
	Top 10 Average	5.5	5.7	6.0	6.1	6.1	5.9	6.0
	Bottom 10 Average	4.3	4.6	4.7	4.7	4.7	4.6	4.7
15. Home Mortgage Rate	CONSENSUS	5.2	5.8	6.2	6.3	6.3	6.0	6.2
	Top 10 Average	5.9	6.5	7.1	7.2	7.2	6.8	7.0
	Bottom 10 Average	4.6	5.1	5.5	5.5	5.5	5.2	5.3
A. FRB - Major Currency Index	CONSENSUS	83.6	83.3	82.7	82.4	82.1	82.8	82.0
	Top 10 Average	86.7	86.7	86.6	86.5	86.6	86.6	86.3
	Bottom 10 Average	80.3	79.8	78.5	77.9	77.3	78.7	77.4
		Year-Over-Year, % Change					Five-Year Averages	
		2016	2017	2018	2019	2020	2016-2020	2021-2025
B. Real GDP	CONSENSUS	2.8	2.8	2.6	2.4	2.4	2.6	2.3
	Top 10 Average	3.2	3.1	2.9	2.8	2.7	2.9	2.6
	Bottom 10 Average	2.6	2.4	2.3	1.8	2.0	2.2	2.0
C. GDP Chained Price Index	CONSENSUS	2.0	2.2	2.2	2.1	2.1	2.1	2.1
	Top 10 Average	2.3	2.7	2.6	2.5	2.4	2.5	2.5
	Bottom 10 Average	1.7	1.8	1.8	1.8	1.8	1.8	1.8
D. Consumer Price Index	CONSENSUS	2.3	2.5	2.4	2.3	2.3	2.4	2.3
	Top 10 Average	2.7	3.1	3.0	2.8	2.7	2.8	2.7
	Bottom 10 Average	2.0	2.0	2.0	1.9	1.9	1.9	1.9

EPCOR Water Arizona Inc.
Derivation of Mean Equity Risk Premium Based on a Study
Using Holding Period Returns of Public Utilities

<u>Line No.</u>		<u>Over A Rated Moody's Public Utility Bonds (1)</u>
1.	Arithmetic Mean Holding Period Returns on the Standard & Poor's Utility Index 1928-2014 (2):	10.69 %
2.	Arithmetic Mean Yield on Moody's A Rated Public Utility Yields 1928-2014	<u>(6.48)</u>
3.	Historical Equity Risk Premium	4.21 %
4.	Forecasted Equity Risk Premium Based on PRPM™ (3)	<u>5.51</u>
5.	Average of Historical and PRPM™ Equity Risk Premium	<u><u>4.86 %</u></u>

- Notes: (1) Based on S&P Public Utility Index monthly total returns and Moody's Public Utility Bond average monthly yields from 1928-2014.
- (2) Holding period returns are calculated based upon income received (dividends and interest) plus the relative change in the market value of a security over a one-year holding period.
- (3) The Predictive Risk Premium Model (PRPM™) is applied to the risk premium of the monthly total returns of the S&P Utility Index and the monthly yields on Moody's A rated public utility bonds from 1928 - 2014.

EPCOR Water Arizona Inc.
Indicated Common Equity Cost Rate Through Use
of the Traditional Capital Asset Pricing Model (CAPM) and Empirical Capital Asset Pricing Model (ECAPM)

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
Proxy Group of Nine Water Companies	Value Line Adjusted Beta	Market Risk Premium (1)	Risk-Free Rate (2)	Traditional CAPM Cost Rate (3)	ECAPM Cost Rate (4)	Indicated Common Equity Cost Rate (5)
American States Water Co.	0.70	7.83 %	3.94 %	9.42 %	10.01 %	
American Water Works Co., Inc.	0.70	7.83	3.94	9.42	10.01	
Aqua America, Inc.	0.70	7.83	3.94	9.42	10.01	
Artesian Resources Corp.	0.55	7.83	3.94	8.25	9.13	
California Water Service Group	0.70	7.83	3.94	9.42	10.01	
Connecticut Water Service, Inc.	0.65	7.83	3.94	9.03	9.71	
Middlesex Water Company	0.70	7.83	3.94	9.42	10.01	
SJW Corporation	0.85	7.83	3.94	10.60	10.89	
York Water Company	<u>0.65</u>	7.83	3.94	<u>9.03</u>	<u>9.71</u>	
Average	<u>0.69</u>			<u>9.33 %</u>	<u>9.94 %</u>	<u>9.64 %</u>
Median	<u>0.70</u>			<u>9.42 %</u>	<u>10.01 %</u>	<u>9.72 %</u>

See page 15 for notes.

EPCOR Water Arizona Inc.
Development of the Market-Required Rate of Return on Common Equity Using
the Capital Asset Pricing Model for
the Proxy Group of Nine Water Companies
Adjusted to Reflect a Forecasted Risk-Free Rate and Market Return

Notes:

- (1) For reasons explained in Ms. Ahern's accompanying direct testimony, from the 13 weeks ending January 2, 2015, Value Line Summary & Index, a forecasted 3-5 year total annual market return of 10.24% can be derived by averaging the 13 weeks ending January 2, 2015 forecasted total 3-5 year total appreciation, converting it into an annual market appreciation and adding the Value Line average forecasted annual dividend yield.
- The 3-5 year average total market appreciation of 37% produces a four-year average annual return of 8.19% $((1.37^{0.25}) - 1)$. When the average annual forecasted dividend yield of 2.05% is added, a total average market return of 10.24% $(2.05\% + 8.19\%)$ is derived.
- The 13 weeks ending January 2, 2015 forecasted total market return of 10.24% minus the risk-free rate of 3.94% (developed in Note 2) is 6.30% $(10.24\% - 3.94\%)$.
- The Predictive Risk Premium Model (PRPM™) market equity risk premium of 10.41% is derived by applying the PRPM™ to the monthly equity risk premium of large company common stocks over the income return on long-term U.S. Government Securities from January 1926 through November 2014.
- The Morningstar, Inc. (Ibbotson Associates) calculated arithmetic mean monthly market equity risk premium of 6.79% for the period 1926-2013 results from a total market return of 12.05% less the arithmetic mean income return on long-term U.S. Government Securities of 5.26% $(12.05\% - 5.26\% = 6.79\%)$.
- The average of these three expectational risk premiums result in a 7.83% average market equity risk premium, which is then multiplied by the beta in column 1 of page 14 of this Schedule. $(7.83\% = (6.30\% + 10.41\% + 6.79\%)/3)$.
- (2) For reasons explained in Ms. Ahern's direct testimony, the risk-free rate that Ms. Ahern relies upon for her CAPM analysis is the average forecast of 30-year Treasury Note yields per the consensus of nearly 50 economists reported in the Blue Chip Financial Forecasts dated January 1, 2015 and December 1, 2014 (see pages 11 & 12 of this Schedule). The estimates are detailed below:

	<u>30-Year Treasury Note Yield</u>
First Quarter 2015	3.10%
Second Quarter 2015	3.30%
Third Quarter 2015	3.50%
Fourth Quarter 2015	3.70%
First Quarter 2016	3.90%
Second Quarter 2016	4.00%
2016 – 2020	4.90%
2021 – 2025	5.10%
Average	<u>3.94%</u>

- (3) The traditional Capital Asset Pricing Model (CAPM) is applied using the following formula:

$$R_s = R_f + \beta (R_M - R_f)$$

Where R_s = Return rate of common stock
 R_f = Risk Free Rate
 β = Value Line Adjusted Beta
 R_M = Return on the market as a whole

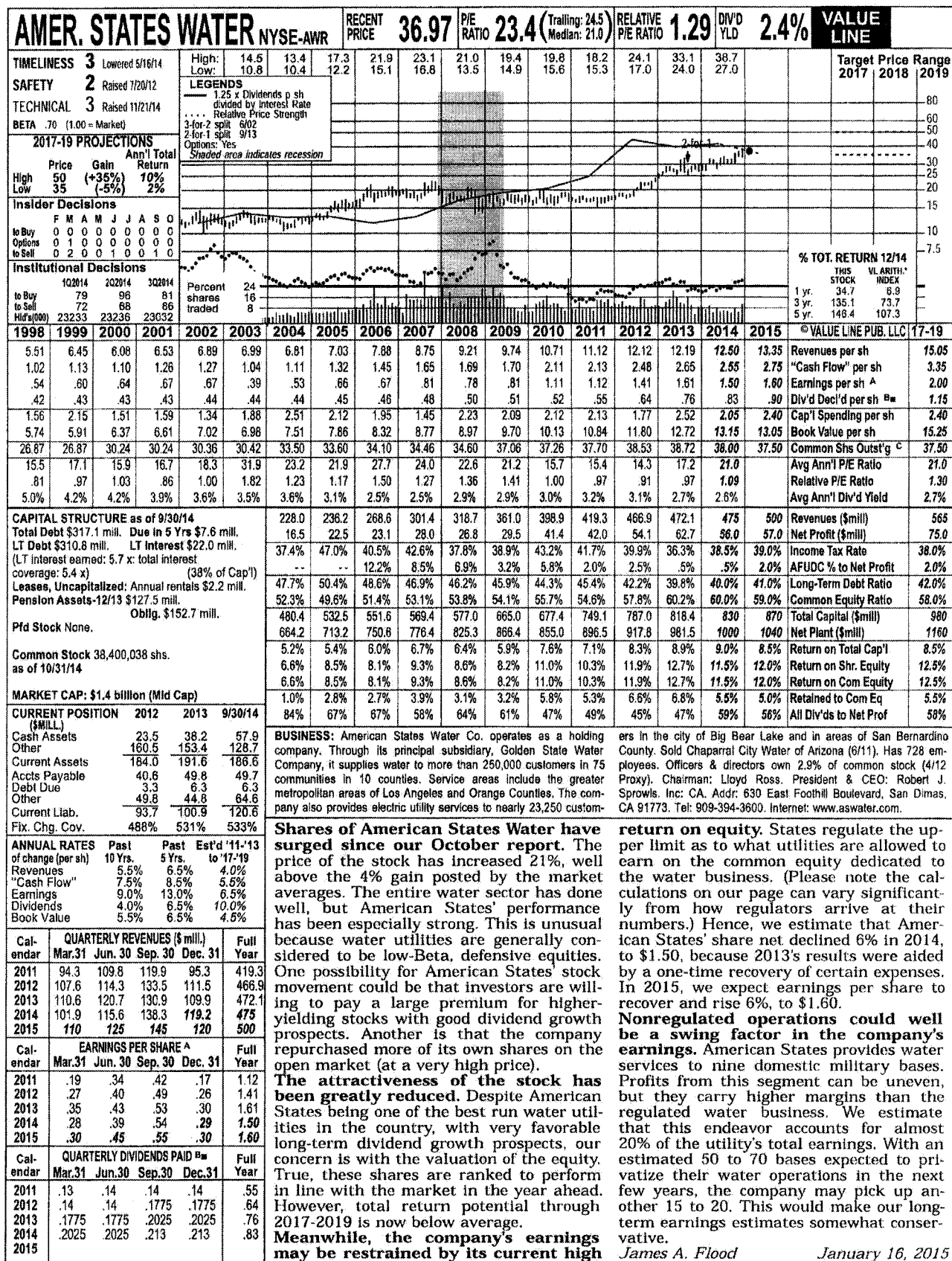
- (4) The empirical CAPM is applied using the following formula:

$$R_s = R_f + .25 (R_M - R_f) + .75 \beta (R_M - R_f)$$

Where R_s = Return rate of common stock
 R_f = Risk-Free Rate
 β = Value Line Adjusted Beta
 R_M = Return on the market as a whole

Source of Information:

Value Line Summary & Index
Blue Chip Financial Forecasts, December 1, 2014 and January 1, 2015
Value Line Investment Survey, (Standard Edition)
Ibbotson® SBBI® 2014 Classic Yearbook – Market Results for Stocks, Bonds, Bills and Inflation, Morningstar, Inc., 2014, Chicago, IL

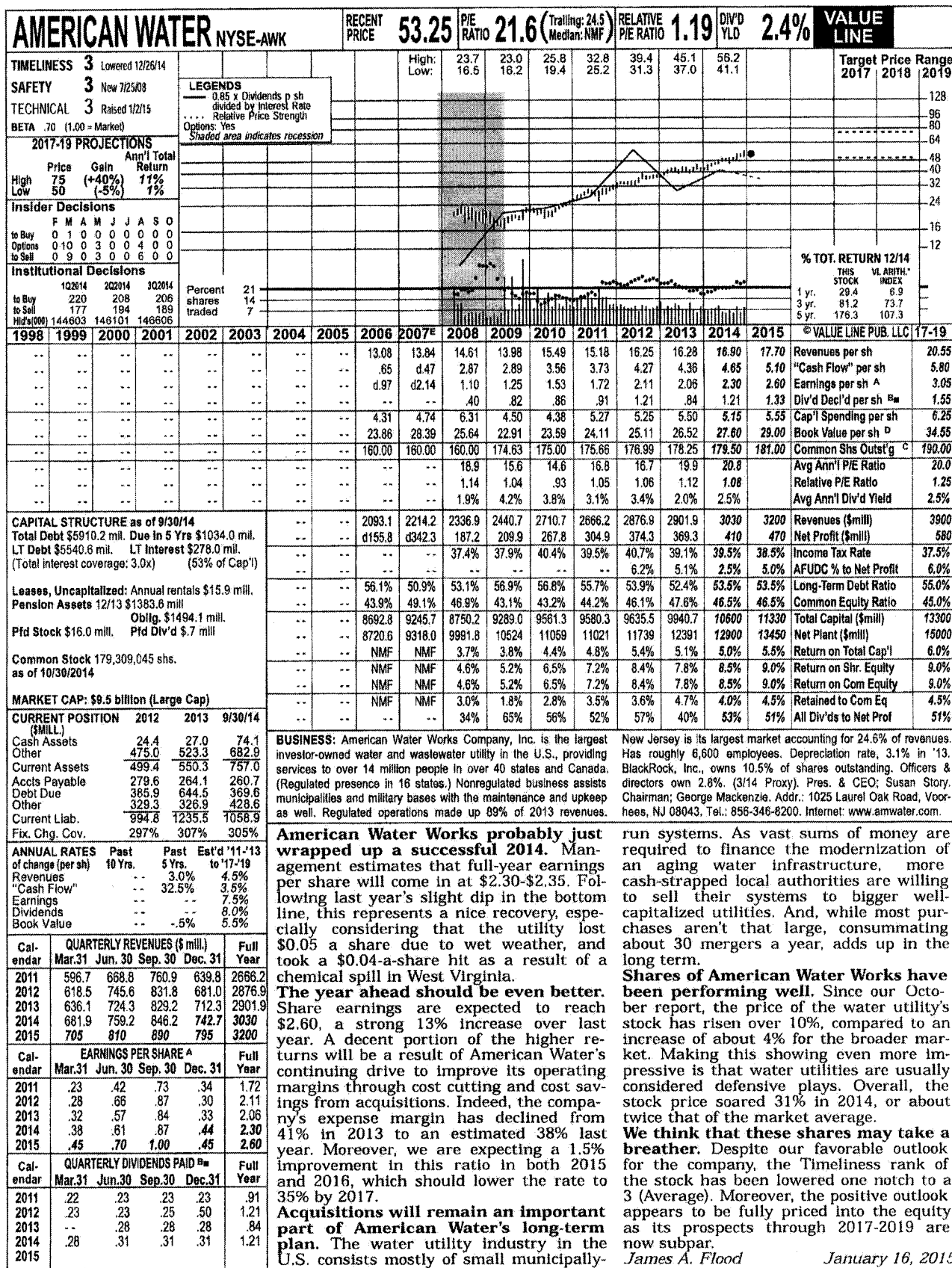


(A) Primary earnings. Excludes nonrecurring gains/losses: '04, 7¢; '05, 13¢; '06, 3¢; '08, (14¢); '10, (23¢); '11, 10¢. Next earnings report due mid February. Quarterly earnings may not add due to rounding.
(B) Dividends historically paid in early March, June, September, and December. Div'd reinvestment plan available.
(C) In millions, adjusted for splits.

Company's Financial Strength A
Stock's Price Stability 85
Price Growth Persistence 65
Earnings Predictability 85

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(A) Diluted earnings. Excludes nonrecurring losses: '08, \$4.62; '09, \$2.63; '11, \$0.07. Discontinued operations: '06, (.44); '11, .34; '12, (1.04); '14, .34. Next earnings report due early Feb. Quarterly earnings may not sum due to rounding. (B) Dividends paid in March, June, September, and December. Div. reinvestment available. Two payments made in 4th quarter of 2012. (C) In millions. (D) Includes intangibles. In 2013: \$1.21 billion, \$6.78/share. (E) Pro forma numbers for '06 & '07.

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Company's Financial Strength B+
Stock's Price Stability 100
Price Growth Persistence 75
Earnings Predictability 20

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AQUA AMERICA NYSE-WTR				RECENT PRICE	26.35	P/E RATIO	21.3	(Trailing: 22.5) Median: 24.0	RELATIVE P/E RATIO	1.18	DIV'D YLD	2.6%	VALUE LINE																									
TIMELINESS 3	Lowered 5/24/13	SAFETY 2	Raised 4/20/12	TECHNICAL 3	Raised 12/26/14	BETA .70	(1.00 = Market)	2017-19 PROJECTIONS						Target Price Range	2017	2018	2019																					
High	40	Low	30	Gain	(+50%)	Ann'l Total Return	14%	Insider Decisions						Institutional Decisions																								
LEGENDS								1.60 x Dividends p sh divided by Interest Rate Relative Price Strength								5-for-4 split 12/03 5-for-3 split 12/05 5-for-4 split 9/13																						
Options: Yes								Shaded area indicates recession								5-for-4																						
Percent shares traded								15 10 5								% TOT. RETURN 12/14																						
1 yr. 16.1 3 yr. 63.5 5 yr. 118.5								VL ARITH. INDEX 16.1 63.5 107.3								17-19																						
1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	VALUE LINE PUB. LLC																				
1.67	1.93	1.97	2.16	2.28	2.38	2.78	3.08	3.23	3.61	3.71	3.93	4.21	4.10	4.32	4.32	4.50	4.75	Revenues per sh				5.65																
49	58	61	69	76	77	87	97	1.01	1.10	1.14	1.29	1.42	1.45	1.51	1.82	1.90	2.05	"Cash Flow" per sh				2.90																
32	33	37	41	43	46	51	57	56	57	58	62	72	83	87	1.16	1.20	1.30	Earnings per sh				1.55																
20	22	23	24	26	28	29	32	35	38	41	44	47	50	54	58	63	69	Div'd Decl'd per sh				.90																
65	72	93	87	96	106	123	147	164	143	158	166	189	190	198	173	175	195	Cap'l Spending per sh				1.95																
257	274	308	332	349	427	471	504	557	585	626	650	681	721	790	863	885	905	Book Value per sh				11.00																
90.25	133.50	139.78	142.47	141.49	154.31	158.97	161.21	165.41	166.75	169.21	170.61	172.46	173.60	175.43	177.93	178.50	175.00	Common Shs Outst'g				170.00																
22.5	21.2	18.2	23.6	23.6	24.5	25.1	31.8	34.7	32.0	24.9	23.1	21.1	21.3	21.9	21.2	20.8		Avg Ann'l P/E Ratio				21.5																
1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.69	1.87	1.70	1.50	1.54	1.34	1.34	1.39	1.19	1.08		Relative P/E Ratio				1.35																
2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	1.8%	2.1%	2.8%	3.1%	3.1%	2.8%	2.8%	2.4%	2.5%		Avg Ann'l Div'd Yield				2.6%																
CAPITAL STRUCTURE as of 9/30/14																		442.0				496.8	533.5	602.5	627.0	670.5	726.1	712.0	757.8	768.6	790	835	Revenues (\$mill)		960			
Total Debt \$1653.6 mill. Due in 5 Yrs \$324.6 mill.																		80.0				91.2	92.0	95.0	97.9	104.4	124.0	144.8	153.1	205.0	215	230	Net Profit (\$mill)		265			
LT Debt \$1560.0 mill. LT Interest \$70.0 mill.																		39.4%				38.4%	39.6%	38.9%	39.7%	39.4%	39.2%	32.9%	39.0%	10.0%	15.0%	28.0%	Income Tax Rate		28.0%			
(Total interest coverage: 3.9x) (49% of Cap'l)																		50.0%				52.0%	51.6%	55.4%	54.1%	55.6%	56.6%	52.7%	52.7%	48.9%	51.0%	51.0%	Long-Term Debt Ratio		52.0%			
Pension Assets-12/13 \$232.4 mill.																		50.0%				48.0%	48.4%	44.6%	45.9%	44.4%	43.4%	47.3%	47.3%	51.1%	49.0%	49.0%	Common Equity Ratio		48.0%			
Oblig. \$281.2 mill.																		1497.3				1690.4	1904.4	2191.4	2306.6	2495.5	2706.2	2646.8	2929.7	3003.6	3200	3325	Total Capital (\$mill)		3950			
Pfd Stock None																		2069.8				2280.0	2506.0	2792.8	2997.4	3227.3	3469.3	3612.9	3936.2	4167.3	4360	4400	Net Plant (\$mill)		5000			
Common Stock 176,633,848 shares as of 10/24/14																		6.7%				6.9%	6.4%	5.9%	5.7%	5.6%	5.9%	6.9%	6.6%	8.0%	8.5%	9.0%	Return on Total Cap'l		8.5%			
MARKET CAP: \$4.7 billion (Mid Cap)																		10.7%				11.2%	10.0%	9.7%	9.3%	9.4%	10.6%	11.6%	11.0%	13.4%	13.5%	14.5%	Return on Shr. Equity		14.0%			
																		10.7%				11.2%	10.0%	9.7%	9.3%	9.4%	10.6%	11.6%	11.0%	13.4%	13.5%	14.5%	Return on Com Equity		14.0%			
CURRENT POSITION (\$mill.)																		4.6%				4.9%	3.7%	3.2%	2.8%	2.7%	3.7%	4.6%	4.3%	6.7%	6.5%	7.0%	Retained to Com Eq		6.0%			
																		57%				56%	63%	67%	70%	72%	65%	60%	61%	50%	53%	53%	All Div'ds to Net Prof		58%			
CASH ASSETS																		5.5				5.1	4.8															
RECEIVABLES																		92.9				95.4	105.7															
INVENTORY (AvgCst)																		11.6				11.4	12.6															
OTHER																		150.7				59.8	84.4															
CURRENT ASSETS																		260.9				171.7	207.5															
ACCTS PAYABLE																		55.5				65.8	48.9															
DEBT DUE																		125.4				123.0	93.6															
OTHER																		93.3				78.1	92.9															
CURRENT LIAB.																		274.2				266.9	235.4															
FIX. CHG. COV.																		413%				388%	389%															
ANNUAL RATES of change (per sh)																		Past 10 Yrs				Past 5 Yrs	Est'd '11-'13 to '17-'19															
REVENUES																		6.5%				4.0%	5.0%															
"CASH FLOW"																		8.0%				8.0%	10.5%															
EARNINGS																		8.5%				11.0%	8.5%															
DIVIDENDS																		7.5%				7.0%	9.0%															
BOOK VALUE																		8.0%				6.0%	5.5%															
QUARTERLY REVENUES (\$mill.)																		Cal-endar				Mar.31	Jun.30	Sep.30	Dec.31	Full Year												
																		2011				163.6	178.3	197.3	172.7	712.0												
																		2012				184.0	191.7	214.6	187.5	757.8												
																		2013				180.0	195.7	204.3	188.6	768.6												
																		2014				182.7	195.3	210.5	201.5	790												
																		2015				195	210	220	210	835												
EARNINGS PER SHARE																		Cal-endar				Mar.31	Jun.30	Sep.30	Dec.31	Full Year												
																		2011				.18	.22	.24	.19	.83												
																		2012				.15	.24	.29	.19	.87												
																		2013				.26	.30	.36	.24	1.16												
																		2014				.24	.31	.38	.27	1.20												
																		2015				.27	.32	.40	.31	1.30												
QUARTERLY DIVIDENDS PAID																		Cal-endar				Mar.31	Jun.30	Sep.30	Dec.31	Full Year												
																		2011				.124	.124	.124	.132	.50												
																		2012				.132	.132	.132	.14	.54												
																		2013				.14	.14	.152	.152	.58												
																		2014				.152	.152	.165	.165	.63												
																		2015																				

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '13: residential, 60.3%; commercial, 15.8%; industrial & other, 23.9%. Officers and directors own .8% of the common stock; Vanguard Group, 6.6%; State Street Capital Corp., 6.3%; Blackrock, Inc., 6.1% (4/14 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-625-1400. Internet: www.aquaamerica.com.

Aqua America should record solid earnings in 2015. The company probably posted decent results in 2014 as we think earnings per share rose 3.4%, to \$1.20. This figure is much better than it appears, as 2013 was an outstanding year and comparisons with it are very difficult. Fueled by an expanding rate base (on which the utility earns a return), we expect share net to increase a healthy 8%, to \$1.30 a share this year.

Acquisitions will continue to remain a key part of Aqua's strategy. The U.S. water market consists of over 50,000 municipally-run districts, many of which are financially strapped and don't have the required funds to upgrade their antiquated water infrastructure. Some are willing to sell themselves to a well-capitalized utility. Since there are many redundancies in the business, Aqua is able to integrate purchases and improve profitability by reducing costs. An estimated 20 acquisitions were made last year, and we think that will represent the low end of Aqua's long-term merger activity.

Dividend growth prospects are excellent. Over the next three- to five-year period, the utility's annual payout will likely be hiked 9% annually, a level well above that of its peers.

Nonregulated operations will probably be affected by declining oil prices. Exploring for oil and gas domestically requires large quantities of water, which are usually shipped to the drilling site by trucks. This is an expensive and cumbersome process. Aqua has simplified the procedure by extending water pipelines right to the rigs. Energy producers are willing to pay high fees for such a service. However, with oil prices having declined by about 50% since last summer, energy exploration could fall substantially if crude prices do not recover.

Income-oriented investors will find much to like about these shares. True, the stock's yield is lower than the industry average. However, buyers typically have to sacrifice more current income to obtain a water utility with such robust dividend growth prospects. Indeed, the equity's capital appreciation and total return potential through 2017-2019 are much higher than others in the group.

James A. Flood *January 16, 2015*

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '13: residential, 60.3%; commercial, 15.8%; industrial

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Acquisitions will continue to remain a key part of Aqua's strategy. The U.S. water market consists of over 50,000 municipally-run districts, many of which are financially strapped and don't have the required funds to upgrade their antiquated water infrastructure. Some are willing to sell themselves to a well-capitalized utility. Since there are many redundancies in the business, Aqua is able to integrate purchases and improve profitability by reducing costs. An estimated 20 acquisitions were made last year, and we think that will represent the low end of Aqua's long-term merger activity. **Dividend growth prospects are excellent.** Over the next three- to five-year pe-

riod, the utility's annual payout will likely be hiked 9% annually, a level well above that of its peers.

Nonregulated operations will probably be affected by declining oil prices. Exploring for oil and gas domestically requires large quantities of water, which are usually shipped to the drilling site by trucks. This is an expensive and cumbersome process. Aqua has simplified the procedure by extending water pipelines right to the rigs. Energy producers are willing to pay high fees for such a service. However, with oil prices having declined by about 50% since last summer, energy exploration could fall substantially if crude prices do not recover.

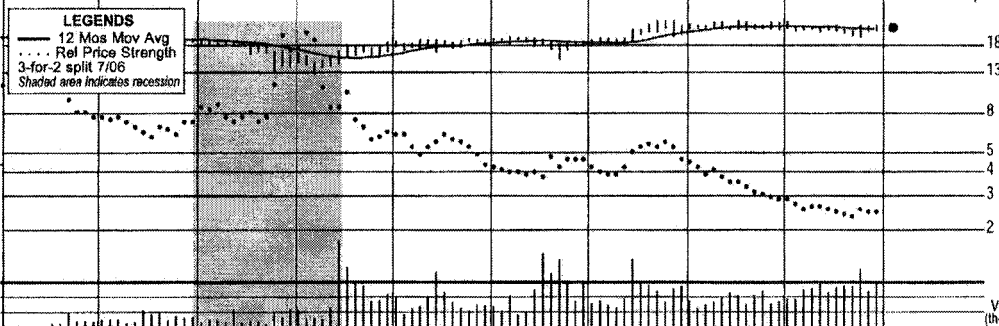
Income-oriented investors will find much to like about these shares. True, the stock's yield is lower than the industry average. However, buyers typically have to sacrifice more current income to obtain a water utility with such robust dividend growth prospects. Indeed, the equity's capital appreciation and total return potential through 2017-2019 are much higher than others in the group.

James A. Flood

January 16, 2015

(A) Diluted eps. Excl. nonrec. gains (losses): '99, (9¢); '00, 2¢; '01, 2¢; '02, 4¢; '03, 3¢; '12, 16¢. Excl. gain from disc. operations: '12, 7¢; '13, 9¢. May not sum due to rounding. Next

earnings report due mid February. (B) Dividends historically paid in early March, June, Sept. & Dec. (C) Div. reinvestment plan available (5% discount).

ARTESIAN RES. CORP. NDQ--ARTNA				RECENT PRICE	22.19	TRAILING P/E RATIO	22.4	RELATIVE P/E RATIO	1.15	DIV'D YLD	3.9%	VALUE LINE
RANKS		22.33 17.90	20.67 18.26	19.31 13.00	18.73 12.81	19.59 16.43	19.99 15.16	24.43 18.20	24.27 21.52	23.82 19.85		High Low
PERFORMANCE	1 Highest	<div>LEGENDS</div> <div>— 12 Mos Mov Avg</div> <div>..... Rel Price Strength</div> <div>3-for-2 split 7/06</div> <div>Shaded area indicates recession</div> 										
Technical	3 Average											
SAFETY	3 Average											
BETA .55	(1.00 = Market)											
Financial Strength	B											
Price Stability	90											
Price Growth Persistence	40											
Earnings Predictability	85											
© VALUE LINE PUBLISHING LLC												
		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015/2016	
SALES PER SH		7.77	7.20	7.59	8.11	8.48	7.56	8.10	7.82	--		
"CASH FLOW" PER SH		1.75	1.57	1.65	1.84	1.92	1.64	2.04	1.87	--		
EARNINGS PER SH		.97	.90	.86	.97	1.00	.83	1.13	.94	1.00 ^{A,B}	1.19 ^{C,NA}	
DIV'DS DECL'D PER SH		.61	.66	.71	.72	.75	.76	.79	.82	--		
CAP'L SPENDING PER SH		5.08	3.66	6.09	2.32	2.57	1.83	2.36	2.40	--		
BOOK VALUE PER SH		10.15	11.66	11.86	12.15	12.44	13.12	13.57	13.80	--		
COMMON SHS OUTST'G (MILL)		6.09	7.30	7.40	7.51	7.65	8.61	8.71	8.83	--		
AVG ANN'L P/E RATIO		20.3	21.5	20.1	16.4	18.2	22.5	18.3	23.9	22.2	18.6/NA	
RELATIVE P/E RATIO		1.10	1.14	1.21	1.09	1.16	1.41	1.17	1.34	--		
AVG ANN'L DIV'D YIELD		3.1%	3.4%	4.1%	4.5%	4.1%	4.1%	3.8%	3.7%	--		
SALES (\$MILL)		47.3	52.5	56.2	60.9	64.9	65.1	70.6	69.1	--		
OPERATING MARGIN		45.6%	45.6%	45.1%	46.9%	46.5%	45.5%	48.7%	47.0%	--		
DEPRECIATION (\$MILL)		4.6	5.2	5.8	6.6	7.0	7.4	7.9	8.3	--		
NET PROFIT (\$MILL)		6.1	6.3	6.4	7.3	7.6	6.7	9.8	8.3	--		
INCOME TAX RATE		39.0%	39.8%	40.8%	40.1%	40.0%	40.8%	40.2%	40.2%	--		
NET PROFIT MARGIN		12.8%	11.9%	11.4%	11.9%	11.7%	10.4%	14.0%	12.0%	--		
WORKING CAP'L (\$MILL)		d8.8	2.5	d20.9	d23.3	d27.9	d11.4	d11.4	d12.3	--		
LONG-TERM DEBT (\$MILL)		92.1	91.8	107.6	106.0	105.1	106.5	106.3	105.5	--		
SHR. EQUITY (\$MILL)		61.8	65.1	87.8	91.2	95.1	113.0	118.2	121.8	--		
RETURN ON TOTAL CAP'L		5.8%	5.3%	4.7%	5.2%	5.6%	4.6%	5.9%	5.1%	--		
RETURN ON SHR. EQUITY		9.8%	7.4%	7.3%	8.0%	8.0%	6.0%	8.3%	6.8%	--		
RETAINED TO COM EQ		3.8%	2.1%	1.4%	2.1%	2.0%	.5%	2.5%	.9%	--		
ALL DIV'DS TO NET PROF		61%	71%	81%	74%	75%	92%	70%	87%	--		

^ANo. of analysts following earn. est. in last 2 days: 0 up, 0 down, consensus 5-year earnings growth not available. ^BBased upon 2 analysts' estimates. ^CBased upon 3 analysts' estimates.

ANNUAL RATES				
of change (per share)	5 Yrs.	1 Yr.		
Sales	1.0%	-3.5%		
"Cash Flow"	2.5%	-8.0%		
Earnings	1.0%	-17.0%		
Dividends	3.5%	4.0%		
Book Value	4.0%	1.5%		

Fiscal Year	QUARTERLY SALES (\$mill.)				Full Year
	1Q	2Q	3Q	4Q	
12/31/12	16.7	17.9	19.0	17.0	70.6
12/31/13	16.3	17.8	18.1	16.9	69.1
12/31/14	16.9	17.9	19.6		
12/31/15					

Fiscal Year	EARNINGS PER SHARE				Full Year
	1Q	2Q	3Q	4Q	
12/31/11	.14	.23	.26	.20	.83
12/31/12	.28	.32	.33	.20	1.13
12/31/13	.20	.28	.29	.17	.94
12/31/14	.23	.22	.37	.22	
12/31/15					

Cal-endar	QUARTERLY DIVIDENDS PAID				Full Year
	1Q	2Q	3Q	4Q	
2012	.193	.198	.198	.203	.79
2013	.203	.206	.206	.209	.82
2014	.209	.212	.212	.215	.85
2015					

INSTITUTIONAL DECISIONS			
	1Q'14	2Q'14	3Q'14
to Buy	28	36	27
to Sell	25	20	33
Hld's(000)	3092	3132	2968

ASSETS (\$mill.)	2012	2013	9/30/14
Cash Assets	.6	.4	.2
Receivables	8.7	8.1	8.5
Inventory	1.4	1.5	1.8
Other	2.8	3.3	3.7
Current Assets	13.5	13.3	14.2
Property, Plant & Equip, at cost	454.4	472.9	--
Accum Depreciation	83.8	89.8	--
Net Property	370.6	383.1	395.2
Other	7.6	7.4	7.6
Total Assets	391.7	403.8	417.0
LIABILITIES (\$mill.)			
Accts Payable	3.5	4.1	3.9
Debt Due	12.6	12.2	16.3
Other	8.8	9.3	14.0
Current Liab	24.9	25.6	34.2

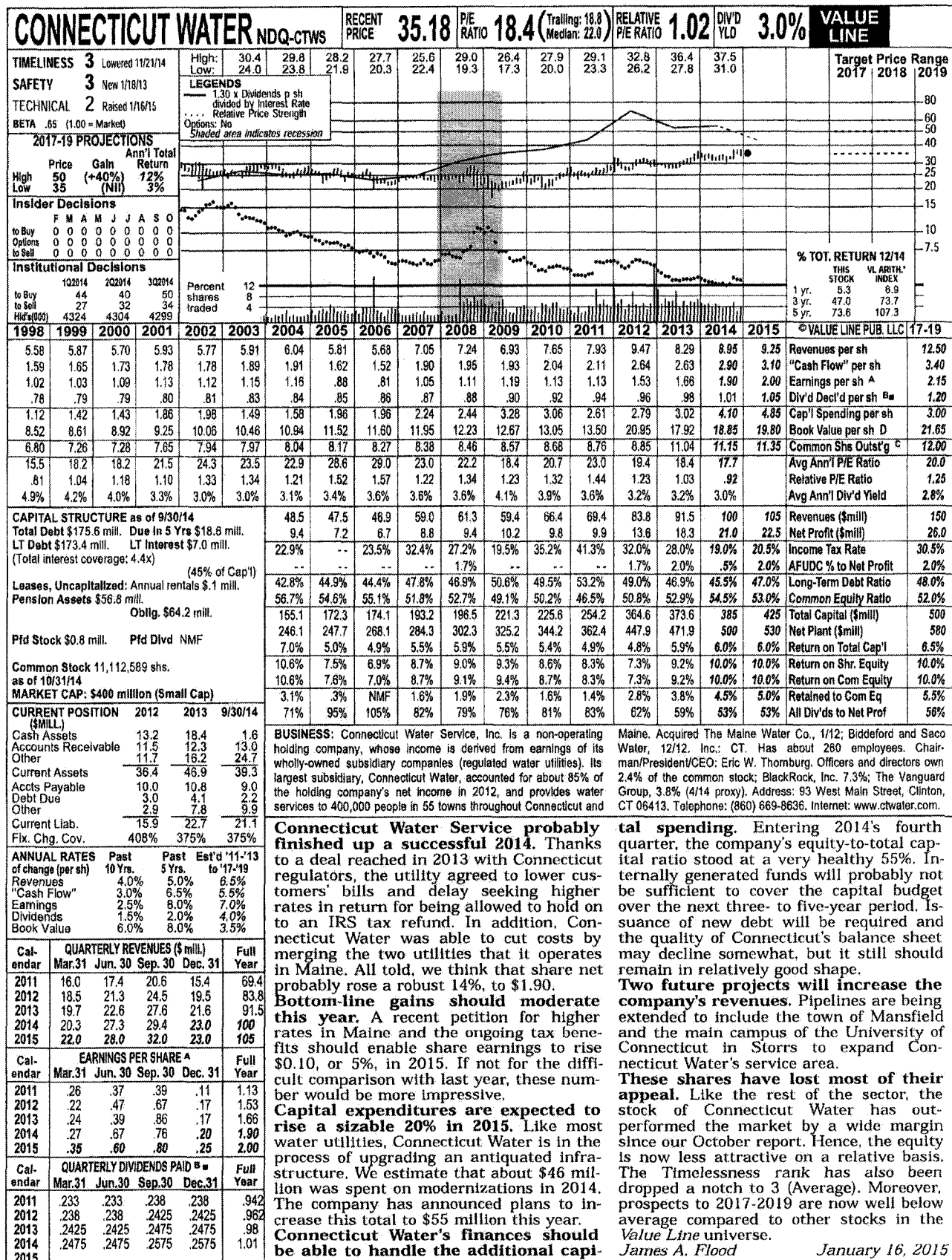
LONG-TERM DEBT AND EQUITY as of 9/30/14	
Total Debt \$121.5 mill.	Due in 5 Yrs. NA
LT Debt \$105.3 mill.	
Including Cap. Leases NA	(46% of Cap'l)
Lessee, Uncapitalized Annual rentals NA	

Pension Liability \$.3 mill. in '13 vs. \$.4 mill. in '12	
Pfd Stock None	Pfd Div'd Paid None
Common Stock 8,900,365 shares	(54% of Cap'l)

INDUSTRY: Water Utility					
BUSINESS: Artesian Resources Corporation, through its subsidiaries, provides water, wastewater, and other services on the Delmarva Peninsula. It distributes and sells water to residential, commercial, industrial, municipal, and utility customers in Delaware, Maryland, and Pennsylvania. The company also offers water for public and private fire protection to customers in its service territories. In addition, it provides contract water and wastewater services, water and sewer service line protection plans, and wastewater management services, as well as design, construction, and engineering services. As of November 5, 2014, the company served approximately 300,000 customers through 1,182 miles of water mains. Artesian supplies over 7.3 billion gallons of water per year through 1,182 miles of water main to about 300,000 people. Has 237 employees. Chairman, C.E.O. & President: Dian C. Taylor. Address: 664 Churchmans Rd., Newark, DE 19702. Tel.: (302) 453-6900. Internet: http://www.artesianwater.com .					
J.V.					
January 16, 2015					
TOTAL SHAREHOLDER RETURN Dividends plus appreciation as of 12/31/2014					
3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.	
13.27%	2.48%	2.35%	34.45%	50.07%	

CALIFORNIA WATER NYSE-CWT										RECENT PRICE	24.08	P/E RATIO	20.1 (Trailing: 22.5 Median: 20.0)	RELATIVE P/E RATIO	1.11	DIV'D YLD	2.8%	VALUE LINE	Target Price Range																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
TIMELINESS 3 Raised 5/20/14										High: 15.7	19.0	21.1	22.9	22.7	23.3	24.1	19.8	19.4	19.3	23.4	26.4																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																

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(A) Diluted earnings. Next earnings report due early February. Quarterly earnings do not add in '12 due to rounding.
(B) Dividends historically paid in mid-March.
(C) Includes intangibles. In '13: \$31.7 mil.
(D) In millions, adjusted for split.
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Company's Financial Strength B+
Stock's Price Stability 90
Price Growth Persistence 50
Earnings Predictability 85

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MIDDLESEX WATER NDQ-MSEX					RECENT PRICE	22.07	P/E RATIO	19.5	(Trailing: 20.1 Median: 21.0)	RELATIVE P/E RATIO	1.08	DIV'D YLD	3.5%	VALUE LINE								
TIMELINESS	3	Lowered 4/11/14	High: 21.2	21.8	23.5	20.5	20.2	19.8	17.9	19.3	19.4	19.6	22.5	23.7	Target Price Range 2017 2018 2019							
SAFETY	2	New 10/21/11	Low: 15.8	16.7	17.1	16.5	16.9	12.0	11.6	14.7	16.5	17.5	18.6	19.1								
TECHNICAL	3	Lowered 9/26/14	LEGENDS 1.20 x Dividends p sh divided by Interest Rate Relative Price Strength 3-for-2 split 10/2 4-for-3 split 11/03 Options: No Shaded area indicates recession																			
BETA	.70	(1.00 = Market)	2017-19 PROJECTIONS																			
			Price	30	Gain	(+35%)	Ann'l Total	17%	2%													
			High	30	Low	20																
Insider Decisions																						
to Buy			F	M	A	M	J	J	A	S	O											
Options			0	0	0	0	2	0	0	0	1	0										
to Sell			0	0	0	0	0	0	0	0	0	0										
Institutional Decisions																						
to Buy			10/2014	37	41	32																
to Sell			34	34	40																	
Hld's(000)			6432	6463	6339																	
			Percent	12																		
			shares	8																		
			traded	4																		
			2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19				
			4.39	5.35	5.39	5.87	5.98	6.12	6.25	6.44	6.16	6.50	6.79	6.75	6.60	6.50	6.98	7.19	7.30	8.00	Revenues per sh	10.00
			1.02	1.19	.99	1.18	1.20	1.15	1.28	1.33	1.33	1.49	1.53	1.40	1.55	1.46	1.56	1.72	1.80	1.90	"Cash Flow" per sh	2.15
			.71	.76	.51	.66	.73	.61	.73	.71	.82	.87	.89	.72	.96	.84	.90	1.03	1.10	1.15	Earnings per sh A	1.25
			.58	.60	.61	.62	.63	.65	.66	.67	.68	.69	.70	.71	.72	.73	.74	.75	.76	.77	Div'd Decl'd per sh B	.83
			2.68	2.33	1.32	1.25	1.59	1.87	2.54	2.18	2.31	1.66	2.12	1.49	1.90	1.50	1.36	1.26	1.30	2.00	Cap'l Spending per sh	2.00
			6.80	6.95	6.98	7.11	7.39	7.60	8.02	8.26	9.52	10.05	10.03	10.33	11.13	11.27	11.48	11.82	12.15	12.30	Book Value per sh D	13.25
			9.82	10.00	10.11	10.17	10.36	10.48	11.36	11.58	13.17	13.25	13.40	13.52	15.57	15.70	15.82	15.96	16.15	16.25	Common Shs Outst'g C	17.00
			15.2	17.6	28.7	24.6	23.5	30.0	26.4	27.4	22.7	21.6	19.8	21.0	17.8	21.7	20.8	19.7	19.0		Avg Ann'l P/E Ratio	21.0
			.79	1.00	1.87	1.26	1.28	1.71	1.39	1.46	1.23	1.15	1.19	1.40	1.13	1.36	1.32	1.11	.99		Relative P/E Ratio	1.30
			5.4%	4.4%	4.2%	3.8%	3.7%	3.5%	3.4%	3.5%	3.7%	3.7%	4.0%	4.7%	4.2%	4.0%	4.0%	3.7%	3.6%		Avg Ann'l Div'd Yield	3.3%
CAPITAL STRUCTURE as of 9/30/14																						
Total Debt \$165.3 mill. Due in 5 Yrs \$56.4 mill.																						
LT Debt \$129.2 mill. LT Interest \$4.5 mill.																						
(LT interest earned: 6.0x)																						
(40% of Cap'l)																						
Pension Assets-12/13 \$46.4 mill.																						
Oblig. \$56.0 mill.																						
Pfd Stock \$2.4 mill. Pfd Div'd: \$.1 mill.																						
Common Stock 16,111,268 shs.																						
as of 10/31/14																						
MARKET CAP: \$350 million (Small Cap)																						
CURRENT POSITION			2012	2013	9/30/14																	
(\$MILL.)																						
Cash Assets			3.0	4.8	5.1																	
Other			21.6	21.0	23.7																	
Current Assets			24.6	25.8	28.8																	
Accts Payable			3.8	6.3	7.2																	
Debt Due			11.1	33.8	36.1																	
Other			41.1	12.6	13.4																	
Current Liab.			56.0	52.7	56.7																	
Fix. Chg. Cov.			554%	697%	695%																	
ANNUAL RATES			Past	Past	Est'd																	
of change (per sh)			10 Yrs.	5 Yrs.	'11-'13																	
Revenues			1.5%	1.0%	6.5%																	
"Cash Flow"			3.0%	1.5%	5.5%																	
Earnings			3.5%	1.5%	5.0%																	
Dividends			1.5%	1.5%	2.0%																	
Book Value			4.5%	3.0%	2.5%																	
QUARTERLY REVENUES (\$mill.)			Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year														
2011			24.0	26.1	28.7	23.3	102.1															
2012			23.5	27.4	32.4	27.1	110.4															
2013			27.0	29.1	31.3	27.4	114.8															
2014			27.1	29.2	32.7	29.0	118															
2015			29.0	31.0	34.0	31.0	125															
EARNINGS PER SHARE A			Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year														
2011			.11	.23	.32	.12	.80															
2012			.11	.23	.38	.17	.94															
2013			.20	.28	.36	.19	1.03															
2014			.20	.29	.42	.19	1.10															
2015			.21	.31	.43	.20	1.15															
QUARTERLY DIVIDENDS PAID B			Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year														
2011			.183	.183	.183	.185	.73															
2012			.185	.185	.185	.1875	.74															
2013			.1875	.1875	.1875	.19	.75															
2014			.19	.19	.19	.1925	.76															
2015																						

BUSINESS: Middlesex Water Company engages in the ownership and operation of regulated water utility systems in New Jersey, Delaware, and Pennsylvania. It also operates water and wastewater systems under contract on behalf of municipal and private clients in NJ and DE. Its Middlesex System provides water services to 60,000 retail customers, primarily in Middlesex County, New Jersey. In 2013, the Middlesex System accounted for 60% of operating revenues. At 12/31/13, the company had 279 employees. Incorporated: NJ. President, CEO, and Chairman: Dennis W. Doll. Officers & directors own 3.3% of the common stock; BlackRock, 7.4%; Vanguard 3.3%, (4/14 proxy). Add.: 1500 Ronson Road, Iselin, NJ 08830. Tel.: 732-634-1500. Internet: www.middlesexwater.com.

ed, this was a good showing, considering that the company lost its largest client (a Hess refinery) and the borough of Sayreville less than two years ago. In 2015, the increase in profits will probably be less impressive, as we estimate only calls for a 4%-5% advance in share net to \$1.15.

The balance sheet may be small but it is relatively solid. With net plant just a little north of \$450 million and total capital of only about \$330 million, Middlesex has better than average financial metrics compared to the rest of the industry.

More attractive candidates can be found for those investors insisting on being involved in the water utility industry. If a water utility stock must be selected, we think that most current valuations in the group are too high. Moreover, Middlesex would not be our recommendation. Typically, utilities with subpar dividend growth prospects must compensate buyers by having a much higher yield. Middlesex's yield does not appear to be high enough to make up for its poor dividend growth prospects.

James A. Flood

January 16, 2015

TIMELESS 4

Lowered 12/19/14

SAFETY 3

New 4/22/11

TECHNICAL 2

Raised 1/2/15

BETA .85

(1.00 = Market)

2017-19 PROJECTIONS

Ann'l Total

High 45

Low 30

Gain (+40%)

Return 17%

Insider Decisions

F M A M J J A S O

to Buy 0 0 0 0 1 1 0 1 0

Options to Sell 0 0 0 0 0 0 0 0 0

Institutional Decisions

to Buy 32

to Sell 39

Hld's(000) 10980

2020/4 45

2021/4 40

2022/4 10965

3020/4 38

3021/4 45

3022/4 10784

High: 15.0

Low: 12.6

19.6

16.1

27.8

43.3

43.0

27.7

35.1

30.1

28.2

26.8

26.9

22.6

30.1

33.7

25.5

LEGENDS

1.50 x Dividends p sh

divided by Interest Rate

Relative Price Strength

3-for-1 split 3/04

2-for-1 split 3/06

Options: No

Shaded area indicates recession

Target Price Range

2017 2018 2019

80

60

50

40

30

25

20

15

10

7.5

% TOT. RETURN 12/14

THIS STOCK

1 yr. 10.8

3 yr. 47.8

5 yr. 64.0

VL ARITH. INDEX

6.9

73.7

107.3

1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015

5.58 6.40 6.74 7.45 7.97 8.20 9.14 9.86 10.36 11.25 12.12 11.68 11.62 12.85 14.01 13.73 15.85 14.75

1.26 1.43 1.23 1.49 1.55 1.75 1.89 2.21 2.38 2.30 2.44 2.21 2.38 2.80 2.97 2.90 4.40 3.35

.76 .87 .58 .77 .78 .91 .87 1.12 1.19 1.04 1.08 .81 .84 1.11 1.18 1.12 2.60 1.45

.39 .40 .41 .43 .46 .49 .51 .53 .57 .61 .65 .66 .68 .69 .71 .73 .75 .79

1.81 1.77 1.89 2.63 2.06 3.41 2.31 2.83 3.87 6.62 3.79 3.17 5.65 3.75 5.67 4.68 4.60 5.25

7.53 7.88 7.90 8.17 8.40 9.11 10.11 10.72 12.48 12.90 13.99 13.66 13.75 14.20 14.71 15.92 17.55 18.55

19.01 18.27 18.27 18.27 18.27 18.27 18.27 18.27 18.28 18.36 18.18 18.50 18.55 18.59 18.67 20.17 20.50 21.00

13.1 15.5 33.1 18.5 17.3 15.4 19.6 19.7 23.5 33.4 26.2 28.7 29.1 21.2 20.4 24.3 10.9 4.0

.68 .88 2.15 .95 .94 .88 1.04 1.05 1.27 1.77 1.58 1.91 1.85 1.33 1.30 1.36 .57 .57

3.9% 3.0% 2.1% 3.0% 3.4% 3.5% 3.0% 2.4% 2.0% 1.7% 2.3% 2.8% 2.8% 2.9% 3.0% 2.7% 2.6% 2.6%

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17-19

CAPITAL STRUCTURE as of 9/30/14

Total Debt \$393.3 mill. Due in 5 Yrs \$21.2 mill.

LT Debt \$384.5 mill. LT Interest \$18.1 mill.

(Total Interest coverage: 2.9X) (52% of Cap'l)

Leases, Uncapitalized: Annual rentals \$5.5 mill.

Pension Assets \$91.4 mill. Oblig. \$128.7 mill.

Pfd Stock None.

Common Stock 20,238,134 shs. as of 10/24/14

MARKET CAP: \$650 million (Small Cap)

CURRENT POSITION 2012 2013 9/30/14

Cash Assets 2.5 2.3 5.6

Other 40.4 37.4 64.9

Current Assets 42.9 39.7 70.5

Accs Payable 8.5 12.6 12.3

Debt Due 20.7 23.0 8.8

Other 19.9 23.6 30.7

Current Liab. 49.1 59.2 51.8

Fix. Chg. Cov. 317% 268% 270%

ANNUAL RATES of change (per sh) Past 10 Yrs. Past 5 Yrs. Est'd '11-'13 to '17-'19

Revenues 5.5% 4.0% 4.0%

"Cash Flow" 6.0% 4.0% 5.0%

Earnings 3.5% .5% 7.0%

Dividends 4.5% 3.5% 6.0%

Book Value 5.5% 2.5% 5.5%

Cal-endar QUARTERLY REVENUES (\$ mill.) Full Year

Mar.31 Jun.30 Sep.30 Dec.31

2011 43.7 59.0 73.9 62.4 239.0

2012 51.1 65.6 82.4 62.4 261.5

2013 50.1 74.2 85.2 67.4 276.9

2014 54.6 70.4 125.4 74.6 325

2015 60.0 75.0 95.0 80.0 310

Cal-endar EARNINGS PER SHARE A Full Year

Mar.31 Jun.30 Sep.30 Dec.31

2011 .03 .29 .44 .35 1.11

2012 .06 .28 .53 .31 1.18

2013 .07 .37 .44 .24 1.12

2014 .04 .34 1.88 .34 2.60

2015 .10 .43 .55 .35 1.45

Cal-endar QUARTERLY DIVIDENDS PAID B Full Year

Mar.31 Jun.30 Sep.30 Dec.31

2011 .173 .173 .173 .173 .69

2012 .1775 .1775 .1775 .1775 .71

2013 .1825 .1825 .1825 .1825 .73

2014 .1875 .1875 .1875 .1875 .75

2015

BUSINESS: SJW Corporation engages in the production, purchase, storage, purification, distribution, and retail sale of water. It provides water service to approximately 228,000 connections that serve a population of approximately one million people in the San Jose area and 11,000 connections that serve approximately 36,000 residents in a service area in the region between San Antonio and Austin, Texas. The company offers nonregulated water-related services, including water system operations, cash remittances, and maintenance contract services. SJW also owns and operates commercial real estate investments. Has about 379 employees. Chrm.: Charles J. Toeniskoetter, Inc.: CA. Address: 110 W. Taylor Street, San Jose, CA 95110. Tel.: (408) 279-7800. Int: www.sjwater.com.

SJW's impressive 2014 performance was the result of a one-time event. In the third quarter, the utility's share net spiked to \$1.88, versus the \$0.44 recorded in the similar 2013 period. Behind this whopping increase was SJW's recognition of \$58.2 million in revenues due the company for expenses incurred in previous years. The delay in recovering the revenues was the reason for the previous four quarters having negative year-over-year comparisons. We are not backing out the profits as a nonrecurring item because they were earned by the utility's main business during the course of normal operations. It's just that they were recognized all at the same time. Investors should note that SJW's P/E and relative P/E ratio will be out of kilter for the next three months. Earnings in 2015 will not be as poor as they will probably appear. Excluding the large one-time item taken by SJW last year, we estimate that the utility could have shown close to a double-digit increase in earnings per share. SJW is in the midst of overhauling its outdated infrastructure. To remove and install new pipes, as well as repair and modernize waste facilities, the company will need to spend close to \$1 billion annually over the next several years. The large projected capital outlays will only have a minor impact on the company's balance sheet. SJW will have to issue new debt because internally generated funds will not cover the entire long-term capital budget. The common equity-to-total capital ratio will most likely decline from the current 48% level to about 46.5% by later in the decade. This should leave the utility with marginally below-average finances. Shares of SJW do not have good near-term prospects. Our proprietary system has dropped the ranking of SJW one notch to 4 (Below Average) for year-ahead relative performance. Long-term prospects are not encouraging either. The 18% rise in the price of the equity since our October report has reduced much of SJW's appeal. With the stock already trading in our 2017-2019 projected Target Price Range, both total return and capital appreciation potential are not impressive. James A. Flood January 16, 2015

A) Diluted earnings. Excludes nonrecurring losses : '03, \$1.97; '04, \$3.78; '05, \$1.09; '06, \$16.36; '08, \$1.22; '10, 46¢. Next earnings report due mid February. Quarterly egs. may not add due to rounding. (B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available. (C) In millions, adjusted for stock splits.

Company's Financial Strength B+

Stock's Price Stability 80

Price Growth Persistence 30

Earnings Predictability 80

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YORK WATER

NDQ-YORW

RECENT PRICE

22.35

P/E RATIO

24.3

(Trailing: 27.3)

(Median: 25.0)

RELATIVE P/E RATIO

1.34

DIV'D YLD

2.7%

VALUE LINE

TIMELINESS

3

Raised 12/19/14

SAFETY

2

New 7/19/13

TECHNICAL

3

Lowered 10/10/14

BETA

.85

(1.00 = Market)

2017-19 PROJECTIONS

Price

Gain

Ann'l Total Return

High

30

(+35%)

10%

Low

20

(-10%)

7%

Insider Decisions

F

M

A

M

J

J

A

S

O

To Buy

0

1

4

1

0

4

2

1

4

Options

0

0

0

0

0

0

0

0

0

To Sell

0

0

0

0

0

0

0

0

0

Hid's(000)

0

0

0

0

0

0

0

0

0

Institutional Decisions

1Q2014

2Q2014

3Q2014

To Buy

30

29

30

To Sell

21

28

30

Hid's(000)

3634

3603

3658

Percent shares traded

12

8

4

1998

1999

2000

2001

2002

2003

2004

2005

2006

2007

2008

2009

2010

2011

2012

2013

2014

2015

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2.05

2.05

2.17

2.18

2.58

2.56

2.79

2.89

2.95

3.07

3.18

3.21

3.27

3.60

3.85

Revenues per sh

4.65

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.59

.57

.65

.65

.79

.77

.86

.88

.95

1.07

1.09

1.12

1.19

1.35

1.45

"Cash Flow" per sh

1.70

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.43

.40

.47

.49

.56

.58

.57

.57

.64

.71

.71

.72

.75

.85

.95

Earnings per sh A

1.10

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.34

.35

.37

.39

.42

.45

.48

.49

.51

.52

.53

.54

.55

.57

.60

Div'd Decl'd per sh B

.75

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.75

.66

1.07

2.50

1.69

1.85

1.69

2.17

1.18

.83

.74

.94

.76

.95

.95

Cap'l Spending per sh

1.00

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--

3.79

3.90

4.06

4.65

4.85

5.84

5.97

6.14

6.92

7.19

7.45

7.73

7.98

8.20

8.90

Book Value per sh

8.90

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9.46

9.55

9.63

10.33

10.40

11.20

11.27

11.37

12.56

12.69

12.79

12.92

12.98

12.80

12.50

Common Shs Outst'g C

11.80

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17.8

26.9

24.5

25.7

26.3

31.2

30.3

24.6

21.9

20.7

23.9

24.4

26.3

24.2

24.8

Avg Ann'l P/E Ratio

22.5

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.91

1.47

1.40

1.36

1.40

1.68

1.61

1.48

1.46

1.32

1.50

1.55

1.48

1.26

1.40

Relative P/E Ratio

1.40

--

--

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4.4%

3.3%

3.2%

3.1%

2.9%

2.5%

2.6%

3.5%

3.6%

3.5%

3.1%

3.1%

2.8%

2.8%

3.0%

Avg Ann'l Div'd Yield

3.0%

CAPITAL STRUCTURE as of 9/30/14

Total Debt \$84.9 mill.

Due in 5 Yrs \$19.5 mill.

LT Debt \$84.9 mill.

LT Interest \$5.1 mill.

(Total interest coverage: 4.0x)

(45% of Cap'l)

Pension Assets 12/13 \$27.1 mill.

Oblig. \$32.1 mill.

Pfd Stock None

Common Stock 12,809,217 shs.

as of 11/4/14

MARKET CAP: \$275 million (Small Cap)

CURRENT POSITION

2012

2013

9/30/14

(\$MILL.)

Cash Assets

4.0

7.6

3.2

Accounts Receivable

6.4

3.8

4.2

Other

1.2

3.8

4.3

Current Assets

11.6

15.2

11.7

Accts Payable

1.1

1.8

2.7

Debt Due

1

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Other

4.3

6.0

8.9

Current Liab.

5.5

7.8

11.6

Fix. Chg. Cov.

414%

417%

417%

ANNUAL RATES of change (per sh)

Past 10 Yrs.

Past 5 Yrs.

Est'd '11-'13 to '17-'19

Revenues

4.5%

3.0%

6.5%

"Cash Flow"

6.5%

6.5%

7.0%

Earnings

5.5%

5.0%

7.0%

Dividends

4.5%

2.5%

5.5%

Book Value

7.0%

6.0%

2.5%

Cal-endar

QUARTERLY REVENUES (\$ mill.)

Full Year

Mar.31

Jun.30

Sep.30

Dec.31

2011

9.6

10.5

10.5

10.0

40.6

2012

9.6

10.4

11.0

10.4

41.4

2013

10.1

10.7

10.9

10.7

42.4

2014

10.6

11.8

12.1

11.5

46.0

2015

11.0

12.0

12.5

12.5

48.0

Cal-endar

EARNINGS PER SHARE A

Full Year

Mar.31

Jun.30

Sep.30

Dec.31

2011

.17

.19

.19

.16

.71

2012

.15

.17

.22

.18

.72

2013

.17

.18

.19

.21

.75

2014

.16

.22

.23

.24

.85

2015

.20

.25

.25

.25

.95

Cal-endar

QUARTERLY DIVIDENDS PAID B

Full Year

Mar.31

Jun.30

Sep.30

Dec.31

2011

.131

.131

.131

.131

.524

2012

.134

.134

.134

.134

.535

2013

.138

.138

.138

.138

.552

2014

.1431

.1431

.1431

.1431

.572

2015

.1495

BUSINESS:

The York Water Company is the oldest investor-owned regulated water utility in the United States. It has operated continuously since 1816. As of December 31, 2013, the company's average daily availability was 35.0 million gallons and its service territory had an estimated population of 190,000. Has more than 63,000 customers. Residential customers accounted for 63% of 2013 reve-

lues; commercial and industrial (29%); other (8%). It also provides sewer billing services. Incorporated: PA. York had 105 full-time employees at 12/31/13. President/CEO: Jeffrey R. Hines. Officers/directors own 1.1% of the common stock (3/14 proxy). Address: 130 East Market Street York, Pennsylvania 17401. Telephone: (717) 845-3601. Internet: www.yorkwater.com.

In late November, The York Water Company raised its dividend by 4.5%. This increase is much higher than the subpar (for a water utility) 2.5% annual growth rate that the company averaged over the past five years. We believe this is the start of a trend in which York will probably be able to raise the yearly payout between 5% and 6% for the next five years. The company has solid short-term earning prospects. For the last 10 months of 2014, Pennsylvania regulators allowed York to raise customers' monthly bills. This probably enabled the company to earn \$0.85 a share in 2014, a 13% increase over 2013. In 2015, due to a combination of the higher tariffs being in effect for all 12 months, along with a slower increase in expenses thanks to some cost cutting, we look for a 12% increase in share earnings, to \$0.95. The capital budget is manageable. Most U.S. water utilities have aging infrastructures that are in need of repair. We estimate that York spent about \$12 million for this purpose last year and will come close to this figure again in 2015. So, while the outlays will be meaningful, they

will not be overwhelming. Finances should remain solid. Cash on hand and internally generated funds were probably sufficient to meet 2014's planned expenditures. Over the next three- to five-year period, however, York will most likely have to access the debt markets to fully fund the capital budget. Currently, the company is well capitalized, as its common equity-to-total capital ratio is a healthy 55%. So, while the company's financial condition may slip a few notches, we think the balance sheet will remain healthy. As has been the case with most water utilities, York shares have been performing extremely well. In December alone, the value of the equity rose 20%. This strong showing has reduced the dividend yield to only 2.7%, or only 60 basis points higher than the median of all dividend-paying companies in the Value Line universe. Investors have been willing to pay a substantial premium for just a little more current income. In addition, the recent price run-up in the stock has left it with meager potential returns through 2017-2019.

James A. Flood

January 16, 2015